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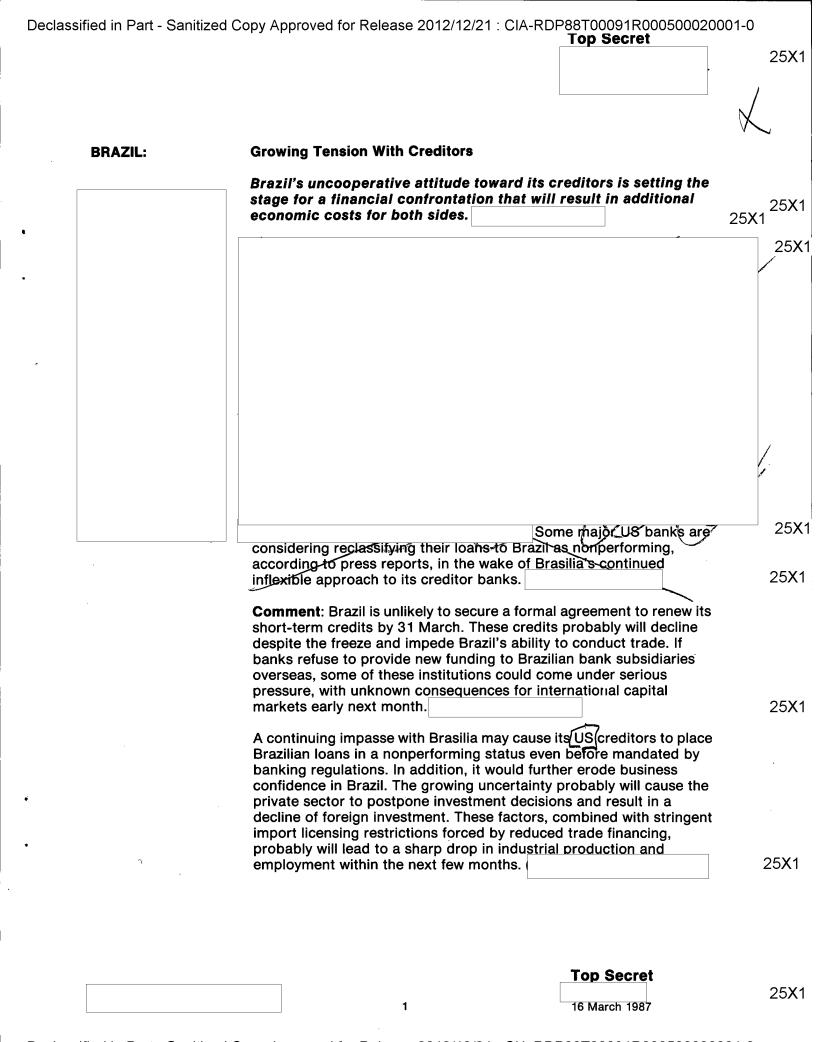
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Contents	
	-
Brazil: Growing Tension With Creditors 1	
	25 X 1
Notes	
·	_
Third World: Reactions to Proposed US Textile Legislation 3	
Iran-Saudi Arabia: Tehran Sends Warning	
Tunisia-Libya: Gradually Improving Ties	05V
	25X
Belgium-US: Visit of Vice Prime Minister 6	05)//
	225 X 1
Taiwan-US: Anger Over Currency Appreciation	
Hong Kong: Strong Economic Recovery 7	
	25 X 1
In Brief 9	
	-
Special Analyses	
	25X1
Ecuador: Facing Hard Times 12	
Yugoslavia: Challenges to Stability 14	
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16 March 1987



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Top Exporters of Textiles and Apparel to the US, 1985	Billion US \$
 Taiwan	4.8
South Korea	4.0
Hong Kong	3.8
Italy	2.2
China	1.5
Brazil	1.2
Japan	1.3
Philippines	0.5
Spain	0.5

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THIRD WORLD: Reactions to Proposed US Textile Legislation LDC fears of a resurgence of US protectionism have been aroused by 25X1 the draft Textile and Apparel Trade Act of 1987. Hong Kong, South Korea, and Taiwan, claiming the bill would roll back their textile and apparel exports by at least 35 percent, are threatening unspecified retaliatory measures. Hong Kong says enactment would constitute a US abandonment of the Multifiber Arrangement and all bilateral agreements. South Korean trade officials denounced the bill as more severe than its predecessor. Taiwan stated the bill is particularly unfair in view of its recent initiatives to open its markets and to comply with US requests on issues of intellectual property rights. The reactions of India and Egypt have been far less critical. 25X1 New Delhi is urging its textile manufacturers to 25X1 raise sales to the US under a new US-India bilateral agreement. Egypt asked the US not to apply the new restrictions to certain cotton textile shipments last year above quota limits until consultations between the two countries are completed. 25X1 Comment: Indonesia, Malaysia, and Pakistan, which have yet to reach bilateral textile agreements with the US, are also likely to react unfavorably in bilateral negotiations. 25X1 **IRAN-SAUDI ARABIA: Tehran Sends Warning** Tehran is again pressuring Saudi Arabia to reduce its support for Irag. According to press reports 25X1 naval ship fired a rocket last Wednesday at a Saudi supertanker off the coast of Dubai. The rocket missed, but the incident marked the 25X1 first attack by Iran against a Saudi ship since last May. 25X1 25X1 **Comment:** Iran's actions may have been prompted by reports that the Saudis have agreed to allow Baghdad to increase the flow of Iragi oil through the Iraqi-Saudi pipeline 25X1 Riyadh is unlikely to reduce its 25X1 support for Iraq, but the Saudis will probably make some effort to mollify Tehran. 25X1

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	TUNISIA-LIBYA: Gradually Improving Ties	
	The well-publicized visit of a senior Libyan security official to Tunis last week marks further progress in the normalization of relations between the two countries. The travel of a Tunisian delegation to Libya earlier this year led to an agreement in principle to open consulates and to Tripoli's release of some Tunisian financial assets frozen after the break in formal relations in 1985. The US defense attache in Tunis reports Tunisia is refurbishing the customs offices on the Tunisian-Libyan-border	25X1
	Comment: The security official's visit is the most publicized contact in several years and follows secret talks between the two countries in Algiers late last year. A resumption of diplomatic relations is likely to take time, however, because of probable delays in Tripoli's payment of outstanding debts and compensation for the 30,000 Tunisian workers it expelled in 1985.	25X1 25X1
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BELGIUM-US: Visit of Vice Prime Minister	1
Belgian Vice Prime Minister Jean Gol visits Washington this week in his capacity as chairman of the EC counterterrorism group. He will sign a US-Belgian extradition treaty and hold discussions on counterterrorism with US officials.	
Comment: Gol is the most powerful member of the second-largest party in the Belgian ruling coalition and would like to become foreign minister. A successful term as chairman of the EC counterterrorism group—the Trevi Group—would restore his domestic political fortunes, which have been in decline recently because of the failure of	
Belgian security forces—for which he is responsible—to cope adequately with increased criminal and terrorist activities.	

25X1 16 March 1987

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TAIWAN-US: Anger Over Currency Appreciation



Currency revaluation has become a heated political issue in Taiwan in recent months; local media are accusing the US of pressing Taipei to revalue the New Taiwan dollar at 28 to the US dollar. In 1984, the rate was 40 to the US dollar; it is currently 35 to the dollar. The Council for Economic Planning and Development has warned that such a revaluation would force some local industries into bankruptcy as foreign remittances decline. It also projected that such a currency revaluation could knock 2 more percentage points off the economic growth rate, which is already expected to decline from 11 percent to 8 percent. The governor of the Central Bank, however, has denied Washington is demanding a 28-to-1 exchange rate.

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Comment: Local businessmen have been openly critical of the government for pandering to US interests by allowing the currency to appreciate as much as it has. The government, sensitive to criticism at a time when President Chiang is moving ahead with political reforms, may have leaked the story, hoping the outcry from businessmen would allow it to resist additional US pressure by

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HONG KONG: Strong Economic Recovery

claiming the political liabilities are too great.



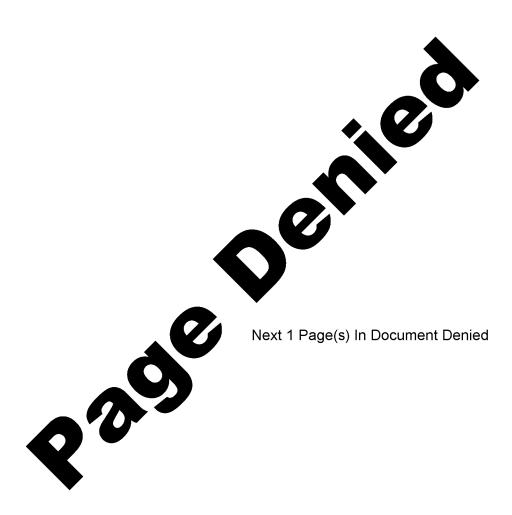
Hong Kong, bolstered by strong export growth, has reported a GDP growth of 8.7 percent for last year. Exports to Japan were up a sharp 32 percent. The territory's overall trade surplus with the US increased slightly to \$5.2 billion—with exports up 9 percent. Hong Kong's overall trade account, however, was virtually in balance.

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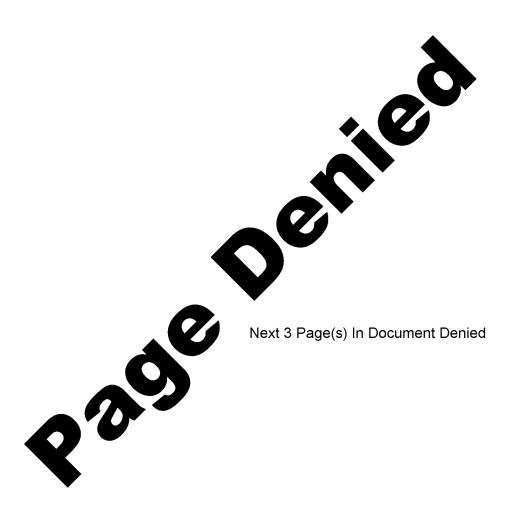
Comment: The territory will continue its strong opposition to adjusting its exchange rate to resolve the bilateral trade imbalance with the US for fear of eventually reviving downward speculative pressures on the Hong Kong dollar. Hong Kong's economic performance has been closely tied to the value of the US dollar since 1983, when the government linked the Hong Kong and US currencies in order to halt destabilizing speculation caused by the territory's uncertain future. The recent weakness of the US dollar—and hence the Hong Kong dollar—stimulated the territory's export-dominated economy.

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Americas	— Bolivian security has warned US Embassy that unemployed miners will march on La Paz this week miners blame US for economic woes may resort to violence.
Middle East	— !ranian Foreign Minister on visit to Sudan seeking to improve ties to Islamic regime there Sudan wants to deal for oil, enhance its nonaligned credentials, discuss return of Sudanese POWs who fought for Iraq .
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Special Analysis

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ECUADOR:

Facing Hard Times

The devastating impact of the recent earthquakes in the remote Amazon region of Ecuador on oil revenues and economic stability has placed the administration of President Febres-Cordero in a precarious position. The President will have to assert renewed leadership to keep the economy afloat and to deflect growing political pressure from leftist parties that seek to undermine his administration. Tensions between the armed forces and the leftist opposition may spark major confrontations that might lead the military either to shut down the congress or to provoke a showdown with Febres-Cordero.

The earthquakes caused massive flooding and mudslides, killing several thousand people and leaving thousands more homeless. They destroyed at least 15 miles (24 kilometers) of Ecuador's main oil pipeline and damaged several pumping stations, forcing a shutdown of major oilfields. The country's petroleum exports could be suspended for six months or more, costing Ecuador more than \$500 million in lost revenues. The total cost of the disaster, allowing for pipeline repairs, may exceed \$950 million. These estimates may significantly underestimate the damage and the logistic problems of repair, however, because of the isolation of the affected region and the destruction of roads and bridges into the area. Ecuador's ability to produce oil may be affected because of damage to the oil reservoirs from the shutting down of the wells.

Before the disaster, Ecuador was producing about 265,000 barrels of oil per day and exporting 180,000 barrels.

Venezuela has already offered 83,000 b/d over the next two months to cover domestic needs and an additional 35,000 b/d over the next seven months to fulfill long-term contracts, according to sources of the US Embassy. Bogota has agreed to allow Ecuador to build an emergency link to its trans-Colombian pipeline with a capacity of 50,000 b/d; this would require at least two months to construct.

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Outlook

support.

Stabilizing the economic situation will test the political nerve of Febres-Cordero, who has maintained an uncharacteristically low profile since the Air Force mutiny two months ago. Unpopular austerity measures will almost certainly be necessary. 25X1 The government will lose at least one-third of its anticipated tax revenues until oil production is restored. The US Embassy reports Febres-Cordero plans to increase gasoline prices by 80 percent, a move that will probably spark violent public protests and draw further 25X1 criticism from opposition groups. Although Febres-Cordero has become increasingly dependent on the military in his frequent confrontations with the left, he now risks losing some military support, particularly if he is forced to make budget cuts. Moreover, fallout from cutting the military budget would probably strain his relations with key officers, currently the mainstays of his

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16 March 1987

Yugoslavia: Indicators of Broader Instability

The following developments probably would be key warning signs of broader systemic instability:

- Public statements by Army leaders on the need for a crackdown on nationalists and dissidents.
- Serious attempts by party hardliners to purge liberals.
- Workers staging strikes across local boundaries or protesting political issues, not just work conditions.
- Serb-initiated ethnic violence against Albanians, pitting the Serb leadership against other nationalities.
- More open support by the Slovene leadership for attack on the system by a Slovene youth movement.

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Army support is unlikely to be necessary to contain unrest nor is more direct military involvement in politics in the cards soon. The Army, long considered the country's principal unifying institution, now seems focused on protecting its economic prerogatives, and ethnic problems within the military are on the rise. Senior Army officials, however, have publicly demanded firmer action by the political leadership,

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Outlook

Local labor and ethnic unrest will increase this year, but regional rivalries make unlikely any nationwide disorder threatening the system. Unless the threat of instability rises sharply, however, the central authorities probably will be unable to reimpose the controls on the press and individual freedoms that existed under Tito. Without them, the country is likely to become even more open and pluralistic.

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Moscow would probably use its limited influence to seek to preserve at least a veneer of central party control in Yugoslavia. It will watch Yugoslav developments closely in advance of the planned visit to Belgrade by General Secretary Gorbachev this summer.

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16 March 1987

